

Patent Litigation Alert

Patent Litigation Alert: Recent Developments and Potential Changes in the Litigation of False Marking Claims Under 35 U.S.C. § 292

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A number of notable developments in Patent False Marking law over the last month indicate that courts and legislators continue to focus on clarifying the reach of the law. Suits brought under U.S.C. Section 292, the False Marking Statute, provide penalties against any person that marks an “unpatented article” with any word or number indicating that the article is patented with the intent to deceive the public. This provision permits enforcement via qui tam actions, whereby any person, not merely one who has been harmed, may sue on the behalf of the government and claim half of the award.

False marking suits became more attractive after the Federal Circuit’s December 2009 decision in *Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), which held that penalties in false marking actions must be imposed on a per article basis. The statute provides that such penalties amount to “not more than \$500 for every such offense,” so the new rule had the potential to lead to hefty fines for mass-produced articles. It has been estimated that over 800 false marking cases have been filed since December 2009.

Recent developments in False Marking law include a decision by the Federal Circuit that raises the pleading standards in False Marking cases and makes them easier to dismiss, decisions by federal district courts dismissing False Marking cases based on lack of standing and unconstitutionality – issues now pending before the Federal Circuit, and legislative amendments proposed to curb further cases.

Heightened Pleading Standards in False Marking Cases

On Tuesday, the Federal Circuit granted in part a petition for writ of mandamus in *In Re BP Lubricants USA Inc.*, Misc. Docket No. 960, holding that general allegations are not sufficient to allege intent to deceive in a false marking case. Reasoning by analogy to the False Claims Act, another statute that attempts to curb fraud via qui tam actions brought on behalf

of the government, the Federal Circuit held that the heightened standards of Rule 9(b) should be applied to False Marking cases as well. Rule 9(b) states that “a party must state with particularity the circumstances constituting fraud or mistake. Malice, intent, knowledge, and other conditions of a person’s mind may be alleged generally.” As the goal of the statute is to “condemn[] fraud ‘but not negligent errors or omissions,’” the court approved the use of the heightened pleading standard in order to weed out “claims that do little more than speculate that the defendant engaged in more than negligent action.” Slip Op. at 6.

The effect of the heightened pleading standard is that plaintiffs will be required to “allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind.” Slip Op. at 7. Although intent to deceive is subject to an objective standard, such that “the fact of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a fraudulent intent,” a false marking complaint must provide “specific underlying facts” in order “to reasonably infer that the defendant was aware that the patent expired.” Slip Op. at 6, 8. It is not enough to make a general allegation that the party “knew” or “should have known” that the patent was expired. See Slip Op. at 8. Along these lines, the court rejected the statement that BP is a “sophisticated company and has experience applying for, obtaining, and litigating patents” as a conclusory allegation “not entitled to an assumption of truth at any stage in litigation.” Slip Op. at 8. Rather than conclusory allegations, the court suggested that facts should be alleged to show, for example, that that the defendant sued a third party for infringement of the patent after the patent expired or made multiple revisions of the marking after expiration. Slip Op. at 9. This decision will have the effect of forcing plaintiffs to perform more pre-suit research before filing suit and make a false marking case easier to dismiss.

Constitutional Challenges to False Marking Law on Appeal

Constitutional challenges to the False Marking Statute have led to different results in district courts, owing to different methodologies for evaluating such claims and confusion over how to deal with the quasi-criminal nature of the False Marking Statute.

For example, on Monday, the Northern District of Ohio issued a reaffirmance of its February 23, 2011 Order finding the False Marking Statute's qui tam provision unconstitutional, following a request from the U.S. Government for reconsideration of the court's February 23, 2011 Order. *Unique Product Solutions, Limited v. Hy-Grade Valve, Inc.*, 5:10-cv-01912-DAP (N.D. Ohio Mar. 14, 2011) (Docket No. 21). In its February 23, 2011 Order (Docket No. 18), the court found the qui tam provision unconstitutional under the Take Care Clause of Article II of the Constitution (§ 3), whereby the President "shall take Care that the Laws be faithfully executed." *Unique Product*, Docket No. 18, at 6, 14. Analyzing the qui tam provision according to the standard developed by the Supreme Court in *Morrison v. Olson*, 487 U.S. 654 (1988), the court found the qui tam provision unconstitutional because it fails to provide the executive branch with sufficient control over false marking litigation in which the United States is the real party in interest. *Id.* at 14-15. The court noted the lack of assurance that the Department of Justice will be served with a False Marking complaint or any relevant pleadings, lack of oversight by the government, and the risk that the government may be bound by a settlement and be precluded from bringing its own suit, without ever having been notified of the suit in progress. *Id.* at 11-12. The False Marking Statute was contrasted with the False Claims Act, which has been found constitutional under *Morrison*: "the FCA requires the complaint to be served on the Attorney General, allows the government to intervene within 60 days, keeps the complaint sealed while the Attorney General decides whether to intervene, allows the government to take control of the litigation, and requires Department of Justice approval to dismiss the complaint even if the government has not intervened." *Id.* at 12. The court noted that as statutory penalty is not calibrated to the size or economic strength of the defendant, the significance of the product, or to the degree of competitive harm the false marking may have had beyond simply the gross number of articles

falsely marked; these cases should be brought by "government attorneys who have no financial stake in the outcome of the litigation or settlement, not by private parties motivated solely by the prospect of financial gain." *Id.* at 14.

In the March 14, 2011 Order, the court responded to The Government's March 8, 2011 motion for reconsideration on the grounds that the Court had incorrectly characterized the False Marking Statute as criminal, rather than civil, based on the Federal Court's decision in *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363 (Fed. Cir. 2010). Acknowledging that the statute could arguably "be construed as criminal, civil, or, as the government contends, a civil-criminal hybrid," the court insisted that such a characterization would not affect its constitutionality analysis, as the analysis used by the court has been applied to qui tam provisions in civil cases as well, including False Claims Act cases. *Unique Product*, Docket No. 21, at 5.

Other courts, however, have analyzed this same constitutionality question and reached the opposite result. In 2009, the district court in *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714, (E.D. Va. Mar. 27, 2009), found no violation of the Take Care Clause of the Constitution, based on the historical acceptance of qui tam actions in general, on the idea that a civil False Marking suit does not "cut to the heart" of the executive branch's constitutional duty under the Take Care clause and so executive control is not so essential, because a relator's qui tam suit "does not bar the government from initiating its own action," and because the government had intervened in that case to defend the constitutionality of the statute. The court also analyzed standing issues and held that the plaintiff had standing to pursue suit on the United States' behalf as a qui tam relator. These issues were not presented to the Federal Circuit in the appeal that led to its decision in *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363 (Fed. Cir. 2010).

Guidance may be on the horizon on constitutionality and/or standing issues under the False Marking Statute, in *FLFMC, LLC v. Wham-O*, Case No. 2011-1067, currently on appeal to the Federal Circuit. This case is an appeal of an August 3, 2010 decision of the Western District of Pennsylvania, in which the court found that a False Marking plaintiff had no standing to sue because the harm done to the government by

false marking is a “sovereign” injury, rather than a concrete financial injury like the kind dealt with by the False Claims Act. *United States v. Wham-O, Inc.*, No. 2:10-cv-00435, (W.D. Pa. Aug. 3, 2010) (Docket No. 28), at 10-14. The court held that such a sovereign injury cannot be assigned to a private entity, and stated that even if it could be assigned, the injury would not constitute “concrete and actual or imminent harm” that could confer standing on a plaintiff. *Id.* at 14-15. This is an argument that was considered and rejected by the *Pequignot* district court. *See* 640 F. Supp. 2d at 724. In briefing filed February 22, 2011, Defendant Wham-O presented arguments on this standing issue as well as on the question of whether the qui tam provision violates the Take Care clause under *Morrison*. Accordingly, the Federal Circuit’s upcoming decision on this case has the potential to shift the law and undercut the current prosecution of False Marking claims.

Legislative Developments

Recent weeks have also seen a resurgence of activity regarding patent reform law, with the passage of Senate Bill S. 23 on March 8, 2011, which proposed changes to the False Marking Statute. Changes proposed include a new requirement that “Only the United States may sue for the penalty authorized by this subsection,” referring to subsection (a), which authorizes a fine for false marking acts. The bill provides a new subsection (b), which allows “[a]ny person who has suffered a competitive injury” to file suit, but only for “recovery of damages adequate to compensate for the injury.” These changes would apply to all cases pending when the act was enacted. On March 14, 2011, a stand-alone bill was proposed in the House of Representatives to amend the False Marking statute by adding a new section that exempts parties from a False Marking fine as long as there was no change to the “manufacturing or production process of the item” after the patent expired, or if there was a change, the word “expired” is added to the marking.

Although it may take some time for the impact of these events to come to fruition, the continuing focus of both legislators and federal judges on False Marking issues means the potential is high for significant changes to occur in this body of law in 2011.

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